Actuarial & Employer Services Branch
P.O. Box 942709
Sacramento, CA 94229-2709
Telecommunications Device for the Deaf - (916) 795-3240
(888) CalPERS (225-7377) FAX (916) 795-3005

November 14, 2007

AGENDA ITEM 3

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: Results of the June 30, 2006 Actuarial Valuations for Public Agencies

II. PROGRAM: Retirement

III. RECOMMENDATION: None – this is an information item.

IV. ANALYSIS:

CalPERS' actuaries completed the June 30, 2006 Public Agency actuarial valuations on schedule shortly before the end of October 2007. These valuations set the employer contribution rates for fiscal year 2008-2009.

The valuations reflect the impact of the investment return for fiscal year 2005-2006, which was approximately 11.8%.

As it was meant to do, the rate smoothing methodology adopted by the Board in April 2005 substantially dampened the impact of this better than expected return. Most of the investment gains were set aside for the future to be able to keep employer rates stable in the event of another decline in the investment markets. In order to have the desired smoothing impact, the new smoothing methods must be applied both when returns are greater than expected and when they are less than expected.

Overall, the average employer contribution rates for 2008-2009 are 13% of payroll for miscellaneous plans and 25% of payroll for safety plans

What follows are the highlights of the changes in employer rates between fiscal years 2007-08 and 2008-09.

- 39% of the plans (767 plans) experienced a decrease in their rates
- 59% of the plans (1,169 plans) experienced an increase in their rates
- 2% of the plans (38 plans) experienced no change in rate and still have a zero rate
- 42 plans have a zero rate

The distribution of the changes in employer rates is shown in the table below. Once again, as it was meant to do, the new rate smoothing methodology substantially dampened the impact of actuarial gains and losses and this can be seen by the fact that 73% of the plans are seeing changes in rates of less than 1%.

Distribution of Changes in Employer Rates

Change in Employer Rate as a Percentage of Payroll	Number of Plans	Percent of All Plans
Decrease more than 3%	69	3%
Decrease between 1% and 3%	118	6%
Decrease 1% to Increase 1%	1441	73%
Increase 1% to 3%	206	10%
Increase more than 3%	140	7%
Total	1,974	100%

Many of the increases in rates were the results of plans amending their plan provisions. Overall, 4% of the plans (80 plans) experienced an increase in rate between 1% and 3% as a result of benefit improvements and 5% of the plans (99 plans) an increase in rate of more than 3% of payroll as a result of benefit improvements.

The following tables show the distribution of the 2007-2008 and the 2008-2009 contribution rates for miscellaneous and safety plans.

2007-2008 Rates

	Miscellaneous Plans		Safety Plans	
	Number of Plans	Percent of Plans	Number of Plans	Percent of Plans
0%	44	3%	2	0%
0-10%	405	30%	24	4%
10-20%	791	59%	141	24%
20-30%	99	7%	265	44%
30-40%	11	1%	132	22%
40%	1	0%	35	6%
	1,351	100%	599	100%

2008-2009 Rates

	Miscellaneous Plans		Safety Plans	
	Number of Plans	Percent of Plans	Number of Plans	Percent of Plans
0%	40	3%	2	0%
0-10%	387	28%	19	3%
10-20%	818	60%	148	24%
20-30%	110	8%	284	47%
30-40%	13	1%	116	19%
40%	1	0%	36	6%
	1,369	100%	605	100%

Estimate of 2009-2010 Employer Contribution Rates

As in prior years, the actuarial valuation reports include an estimate of the employer contribution rates for the next fiscal year, in this case 2009-2010. The estimates reflect the impact of an estimated 18.5% investment return for fiscal year 2006-2007. However, because the asset smoothing method reserves the majority of the asset gain as an offset against potential future losses. We are estimating that the average 2009-2010 miscellaneous and safety employer contribution rates will be lower at 12% of payroll for miscellaneous plans and 24% of payroll for safety plans

The following tables show the distribution of the ESTIMATED 2009-2010 contribution rates for miscellaneous and safety plans.

ESTIMATED 2009-2010 Rates

	Miscellaneous		Safety	
	Number of Plans	Percent of Plans	Number of Plans	Percent of Plans
0%	50	4%	3	0%
0-10%	418	31%	18	3%
10-20%	782	57%	166	27%
20-30%	107	8%	280	46%
30-40%	11	1%	104	17%
40%	1	0%	34	6%
	1,369	100%	605	100%

As always, member contributions (whether paid by the employer or the employee) are in addition to the above rates unless the plan is superfunded.

Funded Status

As a result of the good investment experience, Public Agency plans are better funded as of the June 30, 2006 valuation date than they were a year ago. Miscellaneous plans tend to be better funded than safety plans.

We are monitoring the funded status of Public Agency plans using the market value of assets to ensure that the new rate stabilization methods do not impair the security of benefits. The funded ratio is equal to the market value of assets divided by the actuarial accrued liability, expressed as a percentage. The funded status on an actuarial value of asset basis is used for rate setting only and is not a true measure of the plan's ability to pay benefits.

The table below shows the average funded ratios on a market value of assets basis for all miscellaneous and safety plans.

Funded Ratios on a Market Value Basis

	Miscellaneous Plans	Safety Plans	All Plans
Average Funded Ratio on June 30, 2004	87.7%	83.1%	85.8%
Average Funded Ratio on June 30, 2005	91.9%	87.6%	90.2%
Average Funded Ratio on June 30, 2006	93.8%	91.0%	92.7%

As a result of the estimated 18.5% investment return for fiscal year 2006-2007, the average funded ratio on June 30, 2007 is estimated to be at or above 100% for both the miscellaneous and the safety plans.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Division.

VI. RESULTS/COSTS:

See Above.

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David Lamoureux
Supervising Pension Actuary
Actuarial Office

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Ron Seeling
Chief Actuary
Actuarial & Employer Services Branch